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In the Supreme Court of the United States

OCTOBER TERM, 1949

No. 455

AUTOMATIC RADIO MANUFACTURING COMPANY, INC.,
PETITIONER

v.

HAZELTINE RESEARCH, INC.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIRST CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

INTEREST OF THE UNITED STATES

This case presents important issues of public policy with respect to the availability in private patent litigation of defenses based upon invalidity of patents and misuse of patent rights. The United States has no concern with the private interests involved in such litigation, but it is concerned with the vindication of the dominant public interest in the patent system. *Morton Salt Co.* v. *Suppiger Co.*, 314 U. S. 488, 493; *Mercoid Corp.* v. *Mid-Con-*

tinent Investment Co., 320 U. S. 661, 665; *Edward Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U. S. 394, 401. One of the most effective safeguards of the public interest in this field has been the refusal of the courts to lend their aid to the enforcement of rights claimed under patents, or under contracts based upon patents, where the patents have been used in a manner contrary to public policy or contrary to the patent or antitrust laws.[1] As this Court stated in *Morton Salt Co.* v. *Suppiger Co.*, *supra*, at p. 494, "The patentee, like * * * other holders of an exclusive privilege granted in the furtherance of a public policy, may not claim protection of his grant by the courts where it is being used to subvert that policy."

The decision of the majority of the court below has failed, we believe, both to allow the latitude in raising defenses based upon misuse of patents and to make the inquiry into the legality of the license agreement, which the public interest requires. And the court's holding that petitioner is estopped in this action to challenge the validity of any of the 500 patents and 200 patent applications held by re-

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[1] *E.g.*, *Pope Mfg. Co.* v. *Gormully*, 144 U.S. 224; *Morton Salt Co.* v. *Suppiger Co.*, 314 U.S. 488; *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502; *Carbice Corp.* v. *American Patents Development Corp.*, 283 U.S. 27; *Leitch Mfg. Co.* v. *Barber Co.*, 302 U.S. 458; *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U. S. 661. Compare *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U.S. 173; *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U.S. 249; *Edward Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U.S. 394; *MacGregor* v. *Westinghouse Electric & Mfg. Co.*, 329 U.S. 402.

spondent is contrary to the sound public policy of protecting the public from the threat of invalid patents. Compare *Marconi Wireless Co.* v. *United States*, 320 U. S. 1, 58; *Edward Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, *supra*, at 401.

QUESTIONS PRESENTED

1. Is petitioner licensee estopped from challenging the validity of respondent licensor's patents in a suit for patent royalties?

2. Is a package licensing system under which royalties are charged upon unpatented as well as patented products lawful?

3. Should the licensee's allegations of the licensor's monopolistic practices have been fully tried instead of being dismissed as irrelevant to the licensor's right to recover?

4. Is a patent license agreement valid which requires the licensee to affix restrictive use notices to articles sold by him irrespective of whether the articles embody any of the licensed inventions?

5. May a patentee validly restrict manufacturing licenses to the non-commercial field, and limit the use of articles purchased from its licensees to that field?

STATEMENT

The facts pertinent to the issues which are of concern to the United States may be briefly stated.

Hazeltine Research, Inc. brought this action against Automatic Radio Manufacturing Com-

pany, Inc., for royalties and injunctive relief under a patent license agreement (R. 5) dated September 1, 1942, whereby Automatic Radio was given a non-transferable, non-exclusive license under several hundred specified patents and patent applications and all other patents with respect to which Hazeltine should acquire the right to grant licenses during the ten year term of the agreement (R. 313-314).[2] The license authorized Automatic Radio to utilize such patents, in the manufacture and sale of certain classifications of radio, phonographic and other equipment,[3] and it was provided that "the use in each case is limited to use in homes, use for educational purposes and private non-commercial use" (R. 8). The licensee was required by the agreement to mark all licensed apparatus as follows (R. 14):

> "Licensed by Hazeltine Corporation only for use in homes, for educational purposes, and for

[2] The agreement was subject to earlier termination by the licensor in certain situations (R. 16-17).

[3] "(a) Complete radio broadcast receivers of sound;
(b) Complete radio broadcast receivers of pictures (including television);
(c) Chassis of radio broadcast receivers of sound;
(d) Complete carrier current receivers of sound;
(e) Complete carrier current receivers of pictures;
(f) Complete electrical phonographs;
(g) Complete apparatus for reproducing pictures and talking pictures, from films or other records used in such apparatus, to be seen or heard in the immediate vicinity of such apparatus; and
(h) Combination of the apparatus specified in (a), (b), (f) and (g) of this section or of any two or more of them." (R. 8)

> private, non-commercial use, under one or more of the following patents and under pending applications:" followed by the word "Patent" and the numbers of the patents which are, in the opinion of Licensor, involved in apparatus of the types licensed hereunder manufactured by one or more licensees of Licensor.

Thus the patents to be listed in the restrictive notices were not limited to those actually embodied in the particular apparatus, or even those thought by Hazeltine to cover the particular apparatus to which the restrictive notice was to be affixed, but were to be such patents as Hazeltine thought to be "involved" in apparatus of the general "type" manufactured by *any* of the licensees of Hazeltine under this form of license. Under the agreement, therefore, the license notice would be affixed to radio receivers and other apparatus of the types described in footnote 3, *supra*, p. 4, which petitioner sold, even though they embodied none of Hazeltine's patented inventions.

Automatic Radio agreed to pay royalties in specified percentages upon each complete apparatus under any of the described classifications of equipment which it sold (R. 9), and a minimum royalty of $10,000 per annum was specified (R. 11). The obligation to pay royalties was not conditioned on use by the licensee of any of the patents licensed nor was the amount of royalty measured by the extent of such use. Whether or not petitioner's products were covered by any of the licensed pat-

ents, and without regard to the extent to which the patents were actually used, royalties would be payable on all sales of apparatus of this type made by Automatic Radio.

The license agreement here involved is one of many issued by Hazeltine, which is one of the largest licensors in the radio field (R. 314). At the time of this suit it owned, or had the right to grant licenses under, some 500 patents and 200 patent applications (*ibid.*). Of these patents it has been asserted by Hazeltine that Automatic Radio has been using ten (R. 51-52), while Automatic Radio has denied that it is using any (Ans., par. 9, R. 46).

There is no dispute that Automatic Radio has failed to pay the royalties, to affix the restrictive use notices to its apparatus, or to do the other things called for by the license agreement. It raised defenses based upon alleged misuse of patents by Hazeltine, the illegality of the license agreement, and the invalidity of Hazeltine patents. These defenses included contentions (1) that Hazeltine had acquired the patents covered by the license agreement in an illegal endeavor to eliminate all competition and secure an unlawful monopoly; (2) that the restriction on use imposed by the license notice is illegal and invalidates the royalty agreement; (3) that the requirement of royalty payments based upon gross sales of specified apparatus, irrespective of the use of Hazeltine patents in such

apparatus, constitutes an unlawful extention of the patent monopoly; and (4) that the Hazeltine patents are invalid. Each of these defenses was considered and rejected by the District Court and the Court of Appeals (R. 299-300, 301, 302, 317, 319, 321, 323). The District Court granted a summary judgment in favor of Hazeltine (R. 293) which the Court of Appeals affirmed by a divided vote (R. 330). The summary judgment ordered, adjudged, and decreed that the license agreement of September 1, 1942, is "good and valid at law and in full force and effect;" that Hazeltine recover a minimum royalty as specified under the agreement, and such further sums as are provided for according to its terms; and that a permanent injunction issue restraining Automatic Radio and its officers and directors from breaching provisions of the agreement relating to royalties (R. 293-294).

SUMMARY OF ARGUMENT

I

Petitioner licensee is entitled to challenge the validity of respondent licensor's patents because the license agreement contains provisions which would be violative of the antitrust laws unless authorized in exercise of patent rights. *Edward Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U.S. 394; *United States* v. *United States Gypsum Co.*, 333 U.S. 364, 387-388. In any event, it is contrary to the public interest in removing the threat

of invalid patents for a patent licensee to be estopped judicially from challenging his licensor's patents. *Pope Mfg. Co.* v. *Gormully*, 144 U.S. 224; *Edward Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, *supra*.

II

The royalty scheme of the license agreement, requiring payment of royalties based upon a percentage of the licensee's gross sales irrespective of use by the licensee of the licensor's patents, involves an enlargement of the patent monopoly by placing a toll on unpatented goods which is illegal *per se* (*cf. Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502; *Morton Salt Co.* v. *Suppiger Co.*, 314 U.S. 488), or, at the least, makes appropriate a hearing and determination as to the effects of the agreement upon competition. *Transparent-Wrap Machine Corp.* v. *Stokes & Smith Co.*, 329 U.S. 637.

III

Petitioner's allegations of monopolistic practices on the part of respondent involve the purposes and effect of the acquisition of the very patents here licensed. Petitioner is entitled to a full hearing on these allegations since their truth is relevant to respondent's right to recover in this action for royalties. The District Court should not have disposed of this contention on motion for summary judgment.

IV

Even under the rule of *General Talking Pictures Corp.* v. *Western Electric Co.*, 304 U.S. 175, 305 U.S. 124, the provision of the license agreement requiring restrictive notices to be affixed to radio apparatus sold by the licensee is unlawful. Unlike the notices prescribed in the earlier case, the notices here are required without regard to whether the apparatus utilizes the patents to be listed, or utilizes any patents of the licensor at all, and are therefore plainly illegal. In any event, the *General Talking Pictures* case should now be re-examined in the light of later cases (*e.g.*, *United States* v. *Line Material Co.*, 333 U.S. 287). The holdings in *General Talking Pictures* that a patentee may divide manufacturing fields among licensees, and that the validity of restrictive use notices need not be considered in determining the validity of a license agreement requiring them, are at odds with the cases decided both before and since the *General Talking Pictures* decision was rendered.

ARGUMENT

I

Automatic Radio Is Entitled to Challenge the Validity of Hazeltine's Patents

A. It is now settled that the judicial doctrine of estoppel which has sometimes been applied against a patent licensee who challenges his licensor's patent may not be availed of where the license

agreement contains a price-fixing provision which would render the agreement illegal under the antitrust laws in the absence of valid patents. *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U.S. 173; *Edward Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U.S. 394; *MacGregor* v. *Westinghouse Electric & Mfg. Co.*, 329 U.S. 402. The court below recognized this principle (R. 323) but refused to apply it to any antitrust violations except price-fixing.

We can perceive no reason in principle for this limitation, and believe it to be in conflict with this Court's opinion in *United States* v. *United States Gypsum Co.*, 333 U.S. 364, and with the decision of the Court of Appeals for the Second Circuit in *Nachman Spring-Filled Corp.* v. *Kay Mfg. Co.*, 139 F. 2d 781. In the *Gypsum* case this Court unequivocally approved the principle of permitting a licensee to attack the validity of a patent where the license agreement contained provisions which would, absent a valid patent, violate the antitrust laws. This Court stated (333 U.S. at 387-388):

> In an antitrust suit instituted by a licensee against his licensor we have repeatedly held that the licensee may attack the validity of the patent under which he was licensed, because of the public interest in free competition, even though the licensee has agreed in his license not to do so.

In the *Nachman* case there was an agreement by a competitor to discontinue making and selling the

patented product and the agreement included a covenant acknowledging the validity of the patent. In an infringement action by the patentee against the other party to the agreement, the Court of Appeals rejected the contention that the rule of the *Sola* case should be limited to price-fixing situations, saying (139 F. 2d at 783-784):

> It is suggested, however, that the Sola doctrine is inapplicable to an agreement which unreasonably restrains competition but does not fix prices. We cannot agree. True, the court in the Sola case [317 U.S. 173, 63 S. Ct. 173, 87 L. Ed. 165] specifically referred to "the doctrine of estoppel" as being "in conflict with the Sherman Act's prohibition of price-fixing." But the rationale of the opinion is that there can be no valid estoppel to deny the validity of a patent if the estoppel will result in a contravention of federal anti-trust laws. The court concluded its opinion with the statement that "rules of estoppel which would fasten upon the public as well as the petitioner the burden of an agreement in violation of the Sherman Act must yield to the Act's declaration that such agreements are unlawful, and to the public policy of the Act which in the public interest precludes the enforcement of such unlawful agreements. Cf. *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488, 492, 493, 62 S. Ct. 402, 405, 86 L. Ed. 363." As that act renders unlawful not merely price-fixing agreements but all agreements which, in any way, unreasonably restrain competition in

interstate commerce, the conclusion is inescapable that the Sola case doctrine applies to any such agreement.

It is clear that the fundamental policy underlying the rejection in *Sola* of the artificial bar of estoppel is to prevent the patent owner from resting on asserted patent rights to justify activities that would otherwise be in restraint of trade or unlawful in other respects, except in the cases where the asserted rights really exist—*i.e.*, where the patents are valid. In the instant case there can be no doubt that the license agreement on its face involves an illegal restraint of trade unless that restraint is justified under patent monopolies.[4] Automatic Radio is not licensed to sell to purchasers who might use the product commercially, and the license notice provision is an attempted restriction upon the purchasers themselves. These restrictions would seem necessarily to involve an enforced undertaking by the "Home" licensees, such as petitioner, not to compete in the "Commercial" field with any apparatus covered by Hazeltine's patents (cf. R. 320). In the absence of patent protection, such restraints of trade have been held to be unlawful. *Addyston Pipe & Steel Co.* v. *United States*, 175 U.S. 211; *United States*

[4] We assume, *arguendo*, in this Point I that the method of measuring royalty payments (discussed in Point II) and the license notice requirements (discussed in Point IV) are lawful *if the patents are valid*. If, as we argue below, these provisions are unlawful, even if based on valid patents, there is, of course, no need for petitioner to attack respondent's patents.

v. *Yellow Cab Co.*,[4] 332 U.S. 218, 229; *Nachman Spring-Filled Corp. v. Kay Mfg. Co.*, 139 F. 2d 781 (C.A. 2).[5] Even if no express agreement to avoid the "Commercial" sphere can be spelled out, restrictions of this nature (particularly the license notice provision) plainly impede free competition and, if unpatented articles were involved, would fall under antitrust prohibitions. Nor would it save the license agreement from invalidity if "Home" licensees could freely secure "Commercial" licenses—a fact stated by the respondent in its briefs but which the record does not show; the requirement that two licenses be obtained for the same type of equipment would still clog competition, especially since it seems that even a holder of both licenses could not sell the same radio for both "Home" and "Commercial" use.[6] Likewise, the attempted control by the patentee over articles in the hands of purchasers would be invalid in the absence of patent rights, without regard to the anti-

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[5] It is immaterial that petitioner never affixed the required license notice to its products (R. 318). *Edward Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U.S. 394, 397, 401, and *MacGregor* v. *Westinghouse Electric & Mfg. Co.*, 329 U.S. 402, 405-406, hold that, since it is the unlawful agreement, whether or not executed, which violates the antitrust laws, the licensee may attack the patent's validity even though he did not abide by the invalid agreement.

[6] Inquiry into the other monopoly charges made by Automatic Radio which, as we urge below (in Point III), should have been fully tried by the District Court, might have revealed other antitrust violations, aside from those appearing on the face of the license agreement, which would also provide ground for an attack on the validity of Hazeltine's patents.

trust laws. As the court stated in *RCA Mfg. Co. v. Whiteman*, 114 F. 2d 86, 89 (C.A. 2), certiorari denied, 311 U. S. 712:

> Restrictions upon the uses of chattels once absolutely sold are at least prima facie invalid; they must be justified for some exceptional reason, normally they are "repugnant" to the transfer of title.

The Court of Appeals envisioned practical difficulties if Automatic Radio should be permitted to challenge the validity of the Hazeltine patents (R. 324). Such difficulties, however, arise from the inherent nature of package licensing. It should hardly be suggested that the *Sola* doctrine may validly be circumvented by including large numbers of patents in the patent license. In any event, respondent has charged only that petitioner has used ten of its patents (Br. in opp. p. 8), and the validity of these could be determined without unduly burdening the District Court.

B. Quite apart from the fact that the license agreement in question flatly violates the antitrust laws unless it comes within the protection of valid patents, we think the general doctrine of estoppel by licensees to challenge licensed patents should be reexamined and rejected. Cf. *Kinsman* v. *Parkhurst*, 18 How. 289; *United States* v. *Harvey Steel Co.*, 196 U.S. 310. To require one claiming a patent right to defend the validity of his claim is hardly more than a necessary corollary of the universally recognized principle that the holder of an exclusive

privilege granted by the public must be strictly confined to his grant.

Monopolies are generally repugnant to public policy. The patent system, in so far as it legitimizes monopoly as an inceptive to invention, must be considered a departure, however appropriate, from the normal requirements of competition as expressed by Congress in the federal antitrust laws and embodied in the common law. The policy thus declared in favor of free competition and the striking down of monopoly will be contravened if, on the basis of judicially created estoppel, the validity of monopoly privileges, asserted under letters patent which would never have been issued if all the pertinent facts had been known, may escape judicial scrutiny.

Since every patent necessarily restrains trade by its very nature as a monopoly, the existence of which, apart from the patent, would usually raise questions of legality under the antitrust laws, "It is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly * * *." *Pope Mfg. Co.* v. *Gormully*, 144 U.S. 224, 234. "An invalid patent masquerading as a valid one is a public menace, and should be fair game" (Frank, J, concurring in *Aero Spark Plug Co.* v. *B.G. Corporation*, 130 F. 2d 290, 294 (C.A. 2)); "it discourages enterprise and encourages litigation" (*Gebhard* v *General Motors Sales Corp.*, 135 F. 2d 248, 249 (C.A. D.C.)).

Yet the doctrine of estoppel may prevent a challenge to a patent's validity by those members of the public who are best prepared to make the challenge. Situations are not infrequent in which the owners of dubious patents have bought the silence of persons in a position to expose invalidity by granting licenses to them on favorable terms.[7]

This Court has frequently given practical application to its recognition of the special public interest involved in invalidating worthless patents. The right to challenge "is not only a private right to the individual, but it is founded on public policy which is promoted by his making the defence, and contravened by his refusal to make it." *Mfg. Co.* v. *Gormully, supra,* at 235.[8] And the Court has stated that it is the duty of courts to invalidate a patent, bad on its face, even though the invalidity is not asserted by the litigants. *Brown* v. *Piper,* 91 U.S. 37, 44. It has pointed out for the guidance of lower courts that, though an infringement suit may be disposed of on the ground of non-infringement, the question of the

[7] A recognition that the licensee alone may be in a position to challenge the patent's validity has been used in curious fashion to support the application of an estoppel in certain older cases. It has been suggested that an underlying reason for the estoppel doctrine is that the licensees may have had the benefit of the patent, even though invalid, to keep off competition. See *White* v. *Lee,* 14 Fed. 789, 791 (C.C. D. Mass.) and cases cited.

[8] This language was quoted with approval by the Court in *Edward Katzinger Co.* v. *Chicago Mfg. Co.,* 329 U. S. 394, 401.

patent's validity has the greater public importance and to inquire fully into this question will usually be the better practice. *Sinclair Co.* v. *Interchemical Corp.*, 325 U.S. 327, 330. It has stressed the "protection of the public from the threat of an invalid patent" as the purpose of the rule that a patent is invalid in its entirety if any part of it be invalid. *Marconi Wireless Co.* v. *United States*, 320 U.S. 1, 58.[9]

Perhaps the clearest illustration of the conflict between the estoppel doctrine and the public interest is found in *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U.S. 249, a suit for infringement brought by the assignee of a patent against his assignor. The machine alleged to infringe was a copy of an expired, prior art patent. The Court held that, irrespective of whether an assignor is ordinarily estopped to challenge the validity of his patent as against his assignee, the patent laws precluded invocation of the doctrine of estoppel in the situation there presented. The Court recognized that any form of private arrangement

[9] Lower courts have similarly recognized the desirability of invalidating worthless patents. The public interest has been held to require adjudication of the validity of a patent even though the patent assignor was deemed estopped to deny validity. *Standard Water Systems Co.* v. *Griscom-Russell Co.*, 278 Fed. 703, 705 (C.A. 3), certiorari denied, 259 U. S. 580. In an infringement suit involving only one claim of a patent, it has been held proper to declare the patent as a whole invalid so that it will not "remain in the art as a scarecrow" even though the single claim involved was invalid for reasons independent of the general invalidity of the patent. *Bresnick* v. *United States Vitamin Corp.*, 139 F. 2d 239, 242 (C.A. 2).

which would invest a patent covering an "invention" already revealed by an expired patent with the monopoly attributes contemplated by the patent laws, runs counter to the policy and purpose of those laws—that the invention disclosed by a patent shall, after its expiration, be in the public domain.[10]

Just as the patent law limits the life of a patent to 17 years, so the law confines the issuance of patents to inventions not previously known or used by others. R. S. § 4886, 35 U.S.C. 31. To invest with patent privileges, by virtue of an estoppel doctrine foreclosing inquiry into the true facts, a device or process known to the prior art and therefore not a patentable invention, would equally run counter to the policy and purpose of the patent laws.

It thus appears that there are compelling considerations flowing from the patent and antitrust statutes, as well as from the law's general attitude toward monopoly, for the conclusion that one who seeks to enforce a patent monopoly should be required to defend against any challenge of the validity of his patent.[11]

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[10] Similarly, in *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U. S. 661, 670, the Court refused to apply the ordinary rule of *res judicata* "governing the settlement of private litigation" to a suit involving a misuse of the patent privilege and a violation of the antitrust laws, because of the important public interest in preventing extension of a patent beyond its legitimate scope.

[11] A more extended discussion of the estoppel doctrine is contained in the Government's brief *amicus curiae* in *Mac-*

A Package Licensing System under Which Royalties Are Charged Upon Unpatented as Well as Patented Products Is Unlawful

Since the royalties under the present agreement have not been made to depend upon use by Automatic Radio of any of the patented inventions, but upon a percentage of the gross sales of enumerated classes of radio apparatus, it is obvious that the royalties would constitute a toll upon unpatented goods. We think such a toll represents an illegal enlargement of the patent monopoly which renders the royalty agreement illegal *per se*. *Cf. Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502; *Morton Salt Co.* v. *Suppiger Co.*, 314 U.S. 488; *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661; *United States* v. *United States Gypsum Co.*, 333 U.S. 364; *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U.S. 249. The controlling principle is that "In construing and applying the patent law so as to give effect to the public policy which limits the granted monopoly strictly to the terms of the statutory grant . . . the particular form or method by which the monopoly is sought to be extended is immaterial."

Gregor v. *Westinghouse Electric & Mfg. Co.*, and *Edward Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, Oct. Term, 1946, Nos. 28, 70, and 71. In addition to the arguments made above, it is there shown that (a) under the general principles governing the doctrine of estoppel there is little, if any, basis for applying a rule of estoppel to patent licensees, and (b) the cases of *Kinsman* v. *Parkhurst*, 18 How. 289, and *United States* v. *Harvey Steel Co.*, 196 U. S. 310, on which the patent estoppel doctrine is said to rest, do not appear to represent square, considered holdings on the point.

United States v. Univis Lens Co., 316 U.S. 241, 251-252.[12]

There are several objectionable consequences which flow from the imposition of royalties on unpatented as well as patented items. The toll on unpatented goods tends to discourage their production by the licensee who may have to compete with other sellers of unpatented goods not burdened with such a toll, and thus partakes of the same evils as a direct agreement not to manufacture unpatented

[12] In the *Gypsum* case, one of the abuses of the patents involved was the measurement of royalties "by a percentage of the value of all gypsum products, patented or unpatented" (333 U. S. at 389). This Court pointed out that "Patents grant no privilege to their owners of organizing the use of those patents to monopolize an industry through price control, through royalties for the patents drawn from patent-free industry products and through regulation of distribution" (*id.* at 400).

The cases cited by the Court of Appeals to sustain the instant royalty provision (R. 319) involve situations distinguishable from that here at issue. The case most nearly in point, *H-P-M Development Corp. v. Watson-Stillman Co.*, 71 F. Supp. 906 (D. N.J.), involved a royalty charged on certain types of hydraulic presses irrespective of whether or not any particular patent or patents of the licensor were embodied therein (p. 908). The court held this provision valid on the theory that it was lawful to charge a royalty upon an article as a whole which embodied patented parts (p. 912), and the agreement recited that it was contemplated that one or more patents would be embodied in the manufactured products. Similarly, *American Optical Co. v. New Jersey Optical Co.*, 58 F. Supp. 601, 606 (D. Mass.) and *Ohio Citizens Trust Co. v. Air-Way Elec. Appliance Corp.*, 56 F. Supp. 1010, 1012 (N.D. Ohio), stand for the proposition that a royalty may be charged upon an unpatented completed unit embodying patented parts. Whether or not these cases are sound, they clearly fall short of standing as authority for the present royalty arrangement. The statement as to royalties in *Pusey Mfg. Co. v. Urquhart*, 69 F. Supp. 555, 560 (E.D. Pa.), which we believe to be erroneous, is mere dictum since the licensing system there was held invalid.

products.[13] As this Court has observed, "The rate of royalties may, of course, be a decisive factor in the cost of production." *Standard Oil Co. v. United States*, 283 U. S. 163, 174. Granted that the patent monopoly gives the patentee a lawful right to affect the cost of production of the patented article by a royalty charge, there is the ever-present check that, if he charges a prohibitively high royalty, he may price the article out of the market by rendering it unable to compete with unpatented articles of a similar nature, or articles produced under other patents bearing a lower royalty. Where, as here, the royalties apply to unpatented as well as patented goods, the salutary effect of this competition is diminished or eliminated. The patented products, if any are sold, bear only a portion of the total royalty charge, and the remainder is spread over the unpatented goods; it even may be that the full royalty is borne by the unpatented articles. In these circumstances, there is decidedly less economic compulsion to keep royalties to the lowest appropriate level. In addition, this form of agreement lends itself to indefinite expansion of the coverage of the number and types of unpatented products, far out of proportion to the number and types of patented arti-

[13] Cf. *McCullough v. Kammerer Corp.*, 166 F. 2d 759 (C. A. 9), certiorari denied, 335 U. S. 813, holding invalid an agreement by a patent licensee to manufacture only articles embodying the patented inventions. See also *United States v. United States Gypsum Co.*, 333 U. S. 364: "The provision in the license contracts that royalties should be paid on

cles—with similar serious consequences for the proper adjustment of the royalty rate.

The vice of a system which relieves patentees of the need to prove the worth of individual patents in the open market is greatly intensified in a situation in which large numbers of patents in a particular field become aggregated in the hands of one company and are licensed by it on a package basis. Cf. *Hazeltine Research, Inc.* v. *DeWald Radio Mfg. Co.*, 194 Misc. 81, 85, 84 N.Y. S. 2d 597, 602. Instead of the royalty being based upon the economic value of individual inventions, as determined by the premium which articles embodying such inventions will bring in a free market, the royalty rate tends to be a measure of the nuisance value of potential infringement suits based on any one or more of hundreds of patents. If the royalty rate is made superficially nominal by being set at a low percentage of sales price (a result facilitated by applying the royalty to all products sold, whether or not patented), the tendency of most manufacturers will be to take a license to avoid litigation—a form of litigation insurance—and then to comply with the agreement without ever questioning the validity of any of the patents. Thus the patentee's general monopoly control will be perpetuated. In this way the public ultimately

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the production of unpatented board is strongly indicative of an agreement not to manufacture unpatented board * * * " (p. 397); "The license agreements provided that royalties should be paid on the sales of all board sold, patented or unpatented, a provision which would tend to discourage the production of higher cost unpatented board" (p. 385).

bears the extra burden represented by the royalties without necessarily receiving anything in return.

The argument, found persuasive by the court below (R. 319-320), that basing royalties on gross sales price without regard to use of patents is a convenient, and therefore permissible, system merely serves to emphasize the disadvantages from the standpoint of the public. The reasons it would be inconvenient for Hazeltine to collect royalties based upon the patents used, if any, are (1) it would necessitate determining which apparatus actually embodies the patented inventions, and licensees would be free to dispute Hazeltine's claims in this respect; (2) it would discourage use of the licensed patents unless they were deemed of sufficient usefulness to justify the payment of the royalty charged; (3) royalties would have to be higher (percentage-wise) to produce the same net return, thus increasing resistance by licensees; and (4) to the extent that the validity of Hazeltine's patents is open to challenge, licensees would be in a position to challenge the particular patents used, whereas it might be wholly impractical for a licensee to challenge all of Hazeltine's patents, should that be required.[14]

It is clear that the convenience of the patentee does not justify an enlargement of the patent monopoly. See *B. B. Chemical Co. v. Ellis*, 314 U. S. 495, 498; *Mercoid Corp. v. Mid-Continent Invest-*

[14] In the instant case Hazeltine claims but ten of its 700 patents and patent applications are actually used by Automatic Radio (Br. in Opp., p. 8).

ment Co., 320 U. S. 661, 666, 679-680. Here, the convenience of the patentee is based upon considerations which militate against the public interest. The public should be burdened with royalties only for valid patents on valuable inventions which are actually embodied in the articles which it buys.

In *Pope Mfg. Co.* v. *Gormully*, 144 U. S. 224, this Court found the pledge of a licensee not to challenge any of the numerous patents of his licensor to be against public policy and void. In that case it appears that the pledge ran not only to patents which the licensee was authorized to use, but to other patents as well. Here there is no formal pledge not to challenge patents, but the package licensing system under a blanket percentage royalty has a strong deterrent effect upon such challenges, for, in view of the uncertain state of the law on the subject, the licensee cannot be sure that he will not be required to prove invalidity of one or all of the many patents he does not use as well as the few which he uses. The philosophy of the *Pope* case, resting on the public policy of discouraging a wholesale bar against attacks upon validity of patents, would require disapproval of the present license agreement. And see *Marconi Wireless Co.* v. *United States*, 320 U. S. 1, 58; *Edward Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U. S. 394, 401.

It may be argued that the imposition of royalties on unpatented goods is merely a permissible method of measuring the royalties on patented goods. And since a lump sum royalty would con-

ciently be valid, it is suggested that there can be no vice in percentage royalties which may well impose a lower toll. The economic difference between the two types of royalties, and the dissimilar effect upon competition, are, however, significant. A lump sum royalty becomes an overhead expense which presumably will encourage maximum production and sales to spread overhead. The sales percentage royalty, on the other hand, raises the minimum break-even point above which articles must be priced in order to return a profit. It is the type of cost of production which cannot be reduced by increased sales, and hence has a tendency to act as a clog upon commerce. Where such a burden is placed upon patented goods only, we concede that it is a lawful exercise of the patent monopoly. But where, as here, the toll is placed upon unpatented goods, or upon goods in which the patented invention plays only a minor part, we think the patentee has attempted unlawfully to expand his monopoly. Cf. *United States v. General Electric Co.*, 80 F. Supp. 989, 1005 (S. D. N. Y.); *United States* v. *General Electric Co.*, 82 F. Supp. 753, 814-815 (D. N. J.).

Even if the Court should conclude that the royalty scheme here involves is not illegal *per se*, it would seem appropriate that there be a full hearing below to determine its effect upon competition. Cf. *Transparent-Wrap Mfg. Co.* v. *Stokes & Smith Co.*, 329 U. S. 637, 648. Disposition by the District Court of this case on motion for summary judgment has prevented any exploration of this matter.

III

Automatic Radio's Allegations of Monopolistic Practices Are Relevant to the Legality of the License Agreement and Should Have Been Fully Tried

Automatic Radio attempted to put in issue Hazeltine's alleged monopolistic activities. It charged "That the plaintiff, in an illegal endeavor to eliminate all competition and secure an unlawful monopoly in violation of the antitrust laws of the United States, acquired the approximately 425 United States letters patent and the approximately 120 applications * * * from its employees * * * [and from other corporations]" (Ans., par. 10, R. 47), and on the basis of this charge Automatic Radio contended that "plaintiff is not entitled to the aid of this Court in maintaining this action" (*ibid.*).

The District Court, in its opinion on the motions for summary judgment, characterized the above contention as "Defendant's most substantial defense," and stated that "If the issue of whether a monopoly existed was relevant to this case, I would not decide the question on summary procedure, but would require that it be submitted for trial" (R. 302). The trial judge concluded, however, that it was not necessary to reach the question on the ground that (R. 302-303):

> The license contract involved here is entirely separate from any action of plaintiff to eliminate competition or engage in a monopoly. Assuming, arguendo, it was engaged in an

> unlawful scheme to maintain a monopoly, the contract here was not an integral part of it. The contract in suit did not help to promote any monopoly plaintiff had established.

The Court of Appeals expressly approved this view, stating that "the license agreement, being itself a valid contract, will not be rendered unenforceable by collateral activities of the plaintiff in violation of the antitrust laws" (R. 322).

It is not possible on this record to determine whether Hazeltine has engaged in illegal monopolistic practices, and we do not suggest that it has. But we think it was error for the courts below to exclude this issue from consideration on the theory that the license agreement at issue should be considered separately. It is clear that this license agreement is not an exceptional individual contract. It appears to be a standard form used by Hazeltine in some 130 licenses and thus represents a typical example of Hazeltine's pattern of operation.[15] If Hazeltine's purpose and plan were to

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[15] This pattern was succinctly described by the court below as follows (R. 314):

> For many years Hazeltine has engaged in a program of radio research, as a result of which it has developed many patented inventions. Other patents have been acquired by it through various business arrangements. At the time of this suit, Hazeltine owned, or had the right to grant licenses under, five hundred and more patents and approximately two hundred patent applications, chiefly pertaining to radio and television. As one of the largest licensors in the radio field, it has granted nonexclusive licenses to radio manufacturers, permitting them

monopolize and regiment the radio patent field (cf. *Transparent-Wrap Machine Corp.* v. *Stokes & Smith Co.*, 329 U. S. 637, 646), the package license with its restrictive use provisions and its imposition of royalties regardless of use of its patents would fit in as an integral part of the scheme. It would seem that a full hearing on this question would be appropriate. It can hardly be said, on the record before the Court, that this license agreement is no more than "collateral" to the alleged monopolistic conduct. By the same token, *Bruce's Juices, Inc.* v. *American Can Co.*, 330 U. S. 743, does not support the holding below. That case turned largely on the civil remedies provided in the Robinson-Patman Act, 49 Stat. 1526, 15 U.S.C. 13 *et seq.*, for violation of that Act; it had no relation to, nor did it purport to modify, the unbroken line of authority denying the aid of the courts to patentees who have used their patents in a manner violating the patent or anti-trust laws or contrary to public policy.[16]

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to use any or all of Hazeltine's patents, in return for a royalty payment of a fixed percentage of gross sales of various types of radio equipment.

[16] *Pope Mfg. Co.* v. *Gormully*, 144 U. S. 224; *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U. S. 502; *Carbice Corp.* v. *American Patents Development Corp.*, 283 U. S. 27; *Leitch Mfg. Co.* v. *Barber Co.*, 302 U. S. 458; *Morton Salt Co.* v. *Suppiger Co.*, 314 U. S. 488; *B. B. Chemical Co.* v. *Ellis*, 314 U. S. 495; *Mercoid Corp.* v. *Mid-Continent Co.*, 320 U. S. 661; *Mercoid Corp.* v. *Honeywell Co.*, 320 U. S. 680. Cf. *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U. S. 249; *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U. S. 173; *Edward Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U. S. 394; *MacGregor* v. *Westinghouse Electric & Mfg. Co.*, 329 U. S. 402.

In *Morton Salt Co.* v. *Suppiger Co.*, 314 U. S. 488, in particular, a patentee was barred from suing an asserted infringer, on the ground that the misuse of the patents in license agreements *between the patentee and others* was a complete defense in the infringement suit. The *Morton Salt* case does not depart from the rule that suitors need not lead blameless lives in order to invoke the aid of the courts, but it points out that "additional considerations must be taken into account where maintenance of the suit concerns the public interest as well as the private interests of suitors" (314 U. S. at 493). Cf. *Keystone Driller Co.* v. *Excavator Co.*, 290 U. S. 240, 241-245. *Morton Salt* stands for the principle that a suit based upon rights claimed under patents may not be maintained where the patents have been misused to the disadvantage of the public and other parties. And see cases cited in footnote 16, *supra*, p. 28. An application of that principle here requires determination of the monopoly allegations which the courts below thought it unnecessary to reach, and calls for a full trial of those issues.

IV

The Validity of the Provisions of the License Agreement Restricting Manufacture and Use

As has been discussed in Point I, *supra*, pp. 12-14, the restrictive use provisions of the Hazeltine-Automatic Radio license agreement would clearly be invalid unless somehow protected by the patent

monopoly. Assuming, *arguendo,* that the Hazeltine patents are valid, or that Automatic Radio is estopped to challenge their validity, it becomes necessary to consider whether the patent monopoly legalizes the type of restriction here employed. The court below found the case of *General Talking Pictures Corp. v. Western Electric Co.,* 304 U. S. 175, 305 U. S. 124, controlling on this question. It is our position that the instant case is distinguishable from the *General Talking Pictures* case, but that in any event that case is inconsistent with the main stream of decision—both the cases preceding it, and those which have been decided since—and should be reexamined, at least insofar as it is applicable to the present type of proceeding by a patentee to collect royalties.

A. *The Restrictive Use Notice Here Would Bar Recovery Even Under the Rule of the General Talking Pictures Case*

In the *General Talking Pictures* case, this Court sustained the validity of a license limiting manufacturers of patented radio amplifiers to the non-commercial field. Justices Black and Reed dissented. The petitioner in that case purchased amplifiers, for commercial use, from a licensee, with full knowledge of this restriction, and was held to have infringed the patents covering the amplifiers. The separation between commercial and non-commercial licenses upheld in that case is substantially identical with that in the case at

bar, and the Court did not consider it necessary to pass upon the validity of the restriction or the license notice as applied to a purchaser "in the ordinary channels of trade." But in that case the restrictive use notices were required to be attached to amplifiers embodying the patented devices only. Here, the notices are in terms required to be attached to all apparatus of prescribed categories (*supra*, pp. 4-5), whether or not such apparatus embodies any of Hazeltine's patents. The notices are required to include the numbers of all patents which in Hazeltine's opinion are involved in apparatus "of the types licensed hereunder manufactured by one or more licensees of Licensor" (R. 14). Thus, the patent license-notice may become the vehicle for an attempt illegally to restrict the use of unpatented articles in the hands of the public.[17] We think this provision constitutes a misuse of patents which should render the license agreement unenforceable.

The potential deception and compulsion of the public which this license agreement makes possible is plainly an unlawful extension of the patent monopoly. It is no answer to say, as did the District Court, that "If the restriction is invalid, then the article may go to the purchaser free of the

[17] Even if apparatus sold by petitioner contains patented parts, the attempt to control use of the entire apparatus may amount to an attempt to expand the patent monopoly. Cf. *United States* v. *General Electric Co.*, 80 F. Supp. 989, 1005 (S.D. N.Y.); *United States* v. *General Electric Co.*, 82 F. Supp. 753, 814-815 (D.N.J.).

restriction, but the contract between licensor and licensee is not affected" (R. 302). This view fails to take into consideration the fact that every prospective purchaser is given warning by the required notice that he must not use the article in the excluded field. Even assuming that the restriction is unenforceable, it is a threat to a prospective purchaser not to do acts which the public has a right to do. See *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U. S. 249. And it is a violation of law to place the marking "patent" on unpatented articles (which, as we have pointed out, would also be covered by the license-notice requirement here) for the purpose of deceiving the public. R. S. 4901, 35 U.S.C. 50. It hardly seems appropriate to await a challenge of the limitation by a member of the public—which in fact may never occur—when the license agreement is now before the courts for enforcement. The practical difficulty for a purchaser of a radio to determine whether each of a number of patents listed in a notice is embodied in the machine, and is valid, would be enough to discourage any tendency to risk disregard of the use notices.

It is true that this provision, like other provisions of the license agreement, has not been complied with by Automatic Radio, but non-compliance obviously does not cure inherent illegality. (See footnote 5, *supra*, p. 13.) The District Court specifically adjudged the agreement valid (R. 293), and although the opinion of the Court of Appeals

can be construed as reserving the question of legality of the restrictive use notice provision (R. 318), that court has nevertheless affirmed the judgment of the District Court upholding the entire agreement. The vice of this holding is not cured by the failure of the District Court specifically to enjoin compliance with the restrictive notice provision; the upholding of the agreement as a whole apparently amounts to a declaration that Automatic Radio is under a duty to affix the notices. And, in any case, the making of an agreement of this character is a sufficiently serious misuse of the patents to warrant barring the respondent from recovery. *Morton Salt Co.* v. *Suppiger Co.*, 314 U. S. 488; *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U. S. 661. Compare *Edward Katzinger Co.* v. *Chicago Metallic Mfg. Co.*, 329 U. S. 394; *MacGregor* v. *Westinghouse Electric & Mfg. Co.*, 329 U. S. 402.

B. *The Rule of the General Talking Pictures Case Should Be Reexamined*

In the *General Talking Pictures* case, the Court was presented with two principal issues, both concerning restrictions placed by a patentee on the use of his patent. The first question, which the Court decided, was whether a patentee may legally restrict his licensee to a particular field of manufacture. The Court held that he may. The second question, which the Court did not determine, was whether a purchaser in the ordinary channels of

trade is bound by use restrictions imposed by the patentee. With respect to this latter question the Court held that no decision was required. We think both of these holdings should be reexamined.

1. *Division of Fields Among Licensees*

In three cases decided by this Court since the *General Talking Pictures* case, it has been held that it is a misuse of patents or copyrights to use them as vehicles for restraint of competition among multiple licensees. *United States* v. *Paramount Pictures*, 334 U. S. 131, 144; *United States* v. *United States Gypsum Co.*, 333 U. S. 364, 389, 393, 401; *United States* v. *Line Material Co.*, 333 U. S. 287, 312. Thus, whether or not division of fields of manufacture by a patentee is *per se* illegal, it is unlawful when it effects restraints or regulations of competition among numerous licensees. In the instant case, we think that Automatic Radio should be allowed to demonstrate any restraint upon competition which may flow from Hazeltine's system of licensing, and to contest Hazeltine's assertions (Br. in Opp., p. 25) that licenses under all its patents are readily available to all parties with respect to all classes of apparatus on fair terms, and that its licensing practices in this regard do not in fact restrain competition.

In the *General Talking Pictures* case, the Court held, however, that a division of fields similar to that here involved is lawful, regardless of its

effect upon competition. The cases cited by the Court (305 U. S., at 127) for this holding (*Mitchell v. Hawley*, 16 Wall. 544; *Rubber Company v. Goodyear*, 9 Wall. 788; and *Gamewell Fire-Alarm Telegraph Co. v. Brooklyn*, 15 Fed. 255 (C.C.E.D. N.Y.)) do not appear to us to sustain the proposition.

In the case of *Mitchell* v. *Hawley*, the licensee was given the exclusive right to make and use patented hat felting machines and to license others to use the same for the life of the original patent. The right to vend was not given. The licensee made four machines and sold them with the "right to run" for the duration of the original term of the patent, the date being specified. Under these circumstances, the Court held that, since the licensee had no right to sell the machines but only the right to license their use, the purchaser acquired no right to use the machines under an extension of the patent.[18] Whatever view may be taken now as to the correctness of this decision with respect to the validity of a license which only covers the right to make and use, but not to sell, the patented article, the instant case is clearly different, since here the right to sell was granted to and was exercised by the licensee. Whether or not a patentee may withhold

[18] Compare the holdings that one who purchases a patented article from a seller with power to vend may use the article after the life of the original patent and during an extension period. *Bloomer* v. *McQuewan*, 14 How. 539, 549-50; *Chaffee* v. *Boston Belting Co.*, 22 How. 217, 223; *Bloomer* v. *Millinger*, 1 Wall. 340, 351.

from his licensee the right to sell altogether, it is clear that if he permits sale at all, he cannot limit such sale to use in certain fields if the article is perfectly usable in other fields as well.

The *Goodyear* case upheld a restriction that the licensee use the patent "at his own establishment." Whether or not this is the law at the present time, the rule is clearly distinguishable from the field restriction in the instant case. The patent statute expressly recognizes geographical limitations (R.S. 4898, 35 U.S.C. 47), and this may have influenced the Court's decision in the *Goodyear* case.

The *Gamewell* case involved a license which included a restriction that the patented invention be used only for fire alarm devices. The validity of the restriction was not raised and was not decided. The only issue was whether such a limited licensee had a sufficient interest in the patent to sue in his own name. The Court held that he did not. Moreover, the type of restriction involved in the *Gamewell* case is distinguishable from that in the case at hand. In the former case, there was a "dividing up" of a patent in the sense of limiting the licensee's use of the patent to certain types of articles—fire alarm devices. But in that situation, unlike the one presented here, there was no impairment of utility, no restraint upon use by the public, and no remote control of the article in the hands of purchasers. In the instant case, the utility of the article is impaired since, although it is

capable of various uses, purchasers are deprived of many of these uses.

In all of the cases cited in the *General Talking Pictures* opinions it appears that no one but the patentee was advantaged by the restriction and that it was imposed for his benefit. The restriction in the instant case certainly does not come within this category, for Hazeltine is not itself a manufacturer. Accordingly, it seems that the restriction must have been primarily imposed upon the "Home" licensees for the benefit of the "Commercial" licensees, and *vice versa*. *Prima facie*, this appears improperly to restrain competition among the licensees.

2. *The Legality of Restrictions Upon the Use of Patented Articles by Purchasers*

The *General Talking Pictures* case was considered by the Court in the framework of the rights of a patentee against a contributory infringer who had knowingly participated in infringement by a licensee. By expressly declining to consider the validity of the license-notice restrictions on use by purchasers the Court unduly narrowed, we believe, the scope of inquiry which should be pursued when a patentee seeks aid of the courts to enforce patent rights.

The doctrine that a court of equity will withhold its aid from a patentee who is misusing his patents was implicit in several cases prior to the *General*

Talking Pictures case (cf. *Motion Picture Patents Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502; *Carbice Corp.* v. *American Patents Development Corp.*, 283 U.S. 27; *Leitch Mfg. Co.* v. *Barber Co.*, 302 U.S. 458), but that doctrine was only fully enunciated and developed in later opinions (*Morton Salt Co.* v. *Suppiger Co.*, 314 U.S. 488; *B. B. Chemical Co.* v. *Ellis*, 314 U.S. 495; *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661). Had the misuse doctrine been developed at the time of the *General Talking Pictures* case to the extent which it is today, we think the Court would have been impelled to consider the legality of the use restrictions upon purchasers in the ordinary channels of trade. In any event, in the present case, where the validity of a patent license agreement is directly in issue, the Court is inescapably faced with the question of the legality of the attempted use restrictions embodied in that agreement.[19] For the reasons cogently advanced in the dissenting opinions in the *General Talking Pictures* case (304 U.S. at 183; 305 U.S. at 128), we think that the attempt to restrict the use of patented articles after they have been sold involves an extension of the patent monopoly which is against the public interest and is unwarranted.

[19] In *General Talking Pictures*, the Court declined to consider the legality of the use restriction because it held that the devices there involved "were not manufactured or sold 'under the patent[s]' and did not 'pass into the hands of a purchaser in the ordinary channels of trade.'" 305 U. S. at 125. In contrast, Hazeltine's suit—as its complaint plainly shows (R. 3)—assumes and insists that Automatic Radio's devices were manufactured and sold under the license agreement.

by prior authority. And subsequent decisions stressing the need to contain the patent monopoly within its proper scope (*supra*, pp. 2, 17, 19-20, 34) confirm this view.

As pointed out in the dissenting opinion on rehearing (305 U.S. 131), the fact that the purchaser had notice of the restriction upon use should not affect the established rule that once a patent article is sold, it passes beyond the scope of the patent monopoly.[20] It is obvious that if a patentee's monopoly ends with sale of a patented article, that monopoly cannot be enlarged by a purchaser's knowledge of the patentee's desires as to use of the article.

To regard the legality of the attempted use restriction upon purchasers as extraneous to the legality of the license agreement is to ignore the public interest in the license contract. If a patentee may not lawfully restrict the use of patented articles after they are once sold, he should not be able to intimidate the public by claiming to have that power. An unlawful restriction may well be effective in inducing compliance by the great majority of the public, as well as by most licensees; indeed, the legality of the restriction may never be put to a judicial test either by a member of the public or by a licensee. It is clearly in the public

[20] Cf. *Hobbie* v. *Jennison*, 149 U. S. 355, where the Court held that a purchaser was not bound by a territorial limitation which the patentee had imposed upon his licensee, although the purchaser had notice of the limitation. See also fn. 18, *supra*, p. 35.

interest to permit and encourage a non-compliant licensee, who is required to place the restrictive notices on apparatus sold by him, to challenge the validity of this requirement and of the entire agreement, even though he has not performed his contract in this respect. See *supra*, pp. 14-18, 28-29, 32-3.[21] As the Court said in *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 257: "The interest in private good faith is not a universal touchstone which can be made the means of sacrificing a public interest secured by an appropriate exercise of the legislative power."

CONCLUSION

For the foregoing reasons, the judgment should be reversed.

Respectfully submitted,

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[21] In the instant case, moreover, the District Court, as pointed out above (*supra*, pp. 7, 32), has upheld the entire agreement, and has thus given fresh vitality to the license-notice provision which, if we are right, is illegal.

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